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USWEST

Lawrence E. Sarjeant
Vice President -
Federal Regulatory

September 12, 1994

DOCKETED ORIGINAL

SEP 12 1994

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Stop Code 1170
Washington, D.C. 20554

RE: RM-8491
DA 94-621

Dear Mr. Caton:

On September 9, 1994, the undersigned met with James Schlichting, David Krech, Rosalee Chiara and Linda Haller of the Common Carrier Bureau on behalf of U S WEST Communications, Inc. ("USWC"). During the meeting, USWC conveyed to the Commission staff its position that it would be premature for the Commission to state at this time, as a matter of policy or otherwise, a commitment to the goal of "universal video dialtone service." Further, USWC reiterated its position that the Commission currently has the authority to remedy intentional and inadvertent discrimination in the planned deployment of video dialtone facilities and, therefore, does not need to promulgate video dialtone-specific "redlining" rules, either as a part of the video dialtone 214 application process or independent of that process.

Attached hereto is a document entitled Spending and Saving on Communications Services by Minorities. A copy of this document was left with the Commission staff during this meeting to support the proposition that local exchange carriers have no economic incentive to "redline" minority communities in the deployment of video dialtone facilities.

Because this meeting concluded late in the afternoon, this ex parte filing is being made on the next business day after the meeting. In accordance with Commission Rule 1.1206(a), the original and one copy of this letter are being filed with your office. Acknowledgment and date of this letter are requested on additional copy that has been provided.

Very truly yours,

Lawrence E. Sarjeant

attachment

cc: James Schlichting
David Krech
Rosalee Chiara
Linda Haller

No. of Copies rec'd
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SEP 12 1994

U.S. DEPARTMENT OF JUSTICE
OFFICE OF INSPECTOR GENERAL

Spending and Saving on Communications Services by Minorities

**Prepared by
PNR & Associates, Inc.**

April 1994

**Spending and Saving on
Communications Services by Minorities**

April 1994

Spending and Saving on Communications Services by Minorities

Introduction

In July 1993, the Regional Bell Companies released a major economic study prepared by The WEFA Group which shows that consumers will realize significant savings on communications services if legal and regulatory barriers to full competition are removed. As the study results were presented to various consumer groups, however, it became clear that it would be useful to examine in more detail how these savings would impact various segments of the population. This additional analysis, which was conducted by the market research firm PNR & Associates, had two key findings:

- Minority consumers in general -- and African-American and Hispanic consumers in particular -- today spend significantly more on all types of telecommunications and cable TV services than do non-minority households; and,
- This higher spending means that these groups will see proportionately higher savings from competition and choice in all types of telecommunications and cable TV services.

Minority Spending on Communications

In order to determine household spending on telecommunications and cable TV services, PNR relied on the results of a new consumer survey. The ReQuest I survey collects information on residential consumer attitudes and habits associated with the purchase of utility services, including cable TV, local telephone, and long distance telephone service. Survey questionnaires were sent to over 22,500 households representing all income levels and ethnic groups and approximately 16,000 were completed and returned.

The survey results found that spending on communications services is not an insignificant portion of today's household budgets. American households of all ethnic and income groups spend an average of about \$100 per month on local, long distance, and cable TV services. Specifically, African-American and Hispanic households appear to spend significantly more on all types of communications services than non-minority households.

- African-American households spend an average of \$30 on local telephone service, \$42 on long distance, and \$41 on cable TV service, for

a total of \$113 per month, while Hispanic households average \$29 on local telephone, \$40 on long distance and \$33 on cable TV, for a total of \$102 per month. Non-minority households spend \$27 on local telephone service, \$35 on long distance, and \$30 on cable TV services, or about \$92 per month. (See Figure 1)

- African-American households spend almost 23 percent more on all communications services per month than non-minority households and 20 percent more on long distance telephone service alone. Spending on all communications services by Hispanic households is 11 percent higher per month than in non-minority households and spending on long distance is 14 percent higher.
- Minority households with less than \$10,000 in annual income spend heavily on communications services. African-American households in this income category spend 29 percent more on communications services than the average non-minority household while low income Hispanic households spend almost 22 percent more. (See Figures 1 and 1-A)

As heavy consumers of communications services, minority households would benefit substantially from the potential consumer savings from competitive telecommunications services identified by The WEFA Group.

The WEFA Study and Consumer Savings

The lack of open and fair competition across all segments of the communications marketplace means customers are paying higher prices for services than necessary. The long distance market is a good example. Despite large advertising budgets and marketing campaigns, there is virtually no real price competition in the heavily concentrated long distance market (AT&T, MCI, and Sprint serve about 90 percent of all customers). Since 1990, MCI and Sprint have followed AT&T's lead in raising prices even though the costs of providing long distance service appear to be falling. (See Figure 2) Similarly, cable TV operators, the majority of which face no competition, raised their rates so high that the public outcry forced Congress to take action to reregulate that industry. Policies that allow more companies to compete in all communications markets would give consumers more choices and better prices.

The study conducted by The WEFA Group, the nation's leading econometric forecasting firm, indicates that lifting all legal and regulatory barriers to market entry and full competition, including the current restrictions on the Bell companies, would create a significantly more competitive marketplace for

telephone and cable services. The entrance of seven new and viable competitors would cause all companies to work harder to win customers which will lead to lower rates and better service for American consumers. The WEFA study found that over the next ten years, consumers would save over \$600 billion on their long distance, local, and cable TV bills. (See Figure 3)

Consumers would save money because average prices for communications services would fall by an average of 22 percent over the next decade if the necessary policy changes are made. If barriers to entry and full competition are not removed, however, WEFA forecasts that prices would increase by 20 percent. The largest price reductions would be seen for long distance telephone services, where increased competition would cause prices to be 50 percent lower, saving consumers over \$490 billion by 2003. By 2003, Bell company entry into the cable television business would result in prices that are almost 25 percent lower than what they would be if cable companies continue to operate without competition. According to WEFA, if legal and regulatory barriers to competition in local telephone service markets are removed, price increases would be about half of what they would be if the status quo is maintained.

Potential Minority Savings on Communications

PNR & Associates conducted a detailed demographic analysis of the WEFA study results to determine whether all consumers of communications service would share in the substantial savings identified. The analysis revealed that price reductions and consumer savings would be realized across all ethnic groups. In fact, because minority households spend more on communications services, they also stand to save more, on a per month per household basis, than non-minority households. (See Figures 4 and 4-A) If the policy scenario outlined by WEFA occurs and communications markets are allowed to become fully competitive:

- Minority consumers would see a cumulative savings of \$141 billion on communications services by the year 2003. The most dramatic savings, \$116 billion, would be seen in the long distance market, where removal of barriers to entry throughout the long distance market would spark true price competition.
- African-American consumers would save over \$65 billion on long distance services, almost \$11 billion on cable TV services, and nearly \$4 billion on charges for local telephone service. This means that over the next ten years, African-American households would pay an average of \$29 a month less for their communications services. Long distance bills alone would drop by almost \$18 a month. The savings in long

distance are especially noteworthy, since African-American households spend more on long distance telephone service than any other ethnic group. (See Figures 5 and 6)

- Hispanic consumers would save almost \$36 billion on long distance services, over \$5 billion on cable TV services, and over \$2 billion on local telephone service. On a per household basis, the average monthly savings by service over the next decade would be \$17, \$8, and \$2, respectively, or \$27 for all communications services. The long distance savings would be felt particularly in Hispanic households with less than \$10,000 in annual income, who have among the highest monthly expenditures on long distance calling of all ethnic and income groups. (See Figures 6 - 9 for a detailed breakdown of savings by service, ethnic group, and income level.)
- Consumers of other ethnic groups would save over \$15 billion on long distance services, over \$2 billion on cable TV services, and over \$700 million on local telephone service. Asian-American households would see their bills for all communications services drop by an average of almost \$28 per month through 2003.

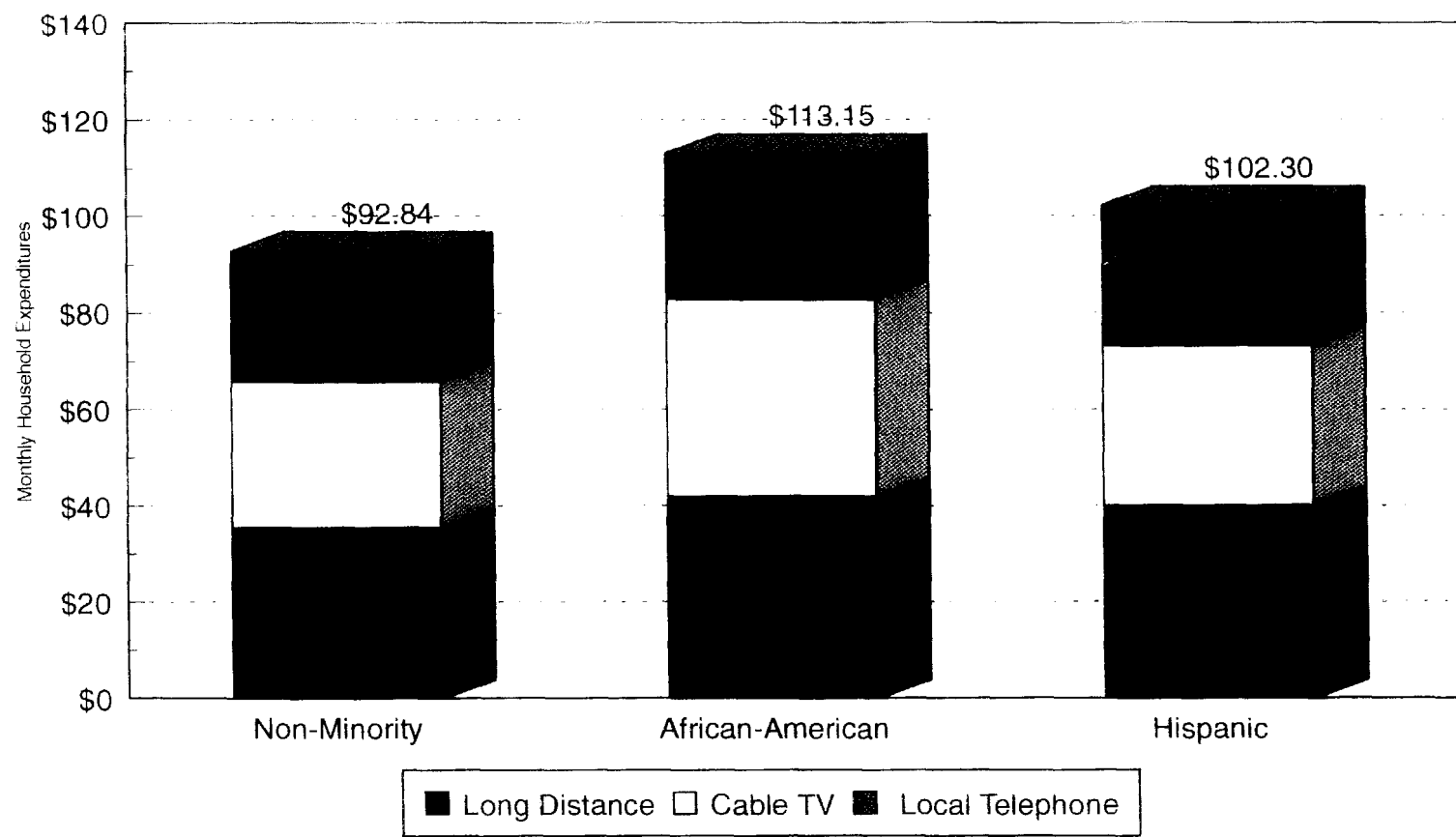
Minority Communities Have a Stake in the Debate

Communications policy changes that are necessary to realize the substantial consumer savings identified by WEFA are already being debated in many state and Federal forums. The analysis outlined above shows that while all Americans have a stake in the debate, African-American and Hispanic consumers stand to benefit more, on a per household basis, because they spend more than the average consumer on communications services.

Figure 1

African-American and Hispanic Households Spend 23% and 11% More on Communications Services than Non-Minority Households

Comparison of Monthly Spending on Communications Services by Ethnic Group and Type of Service

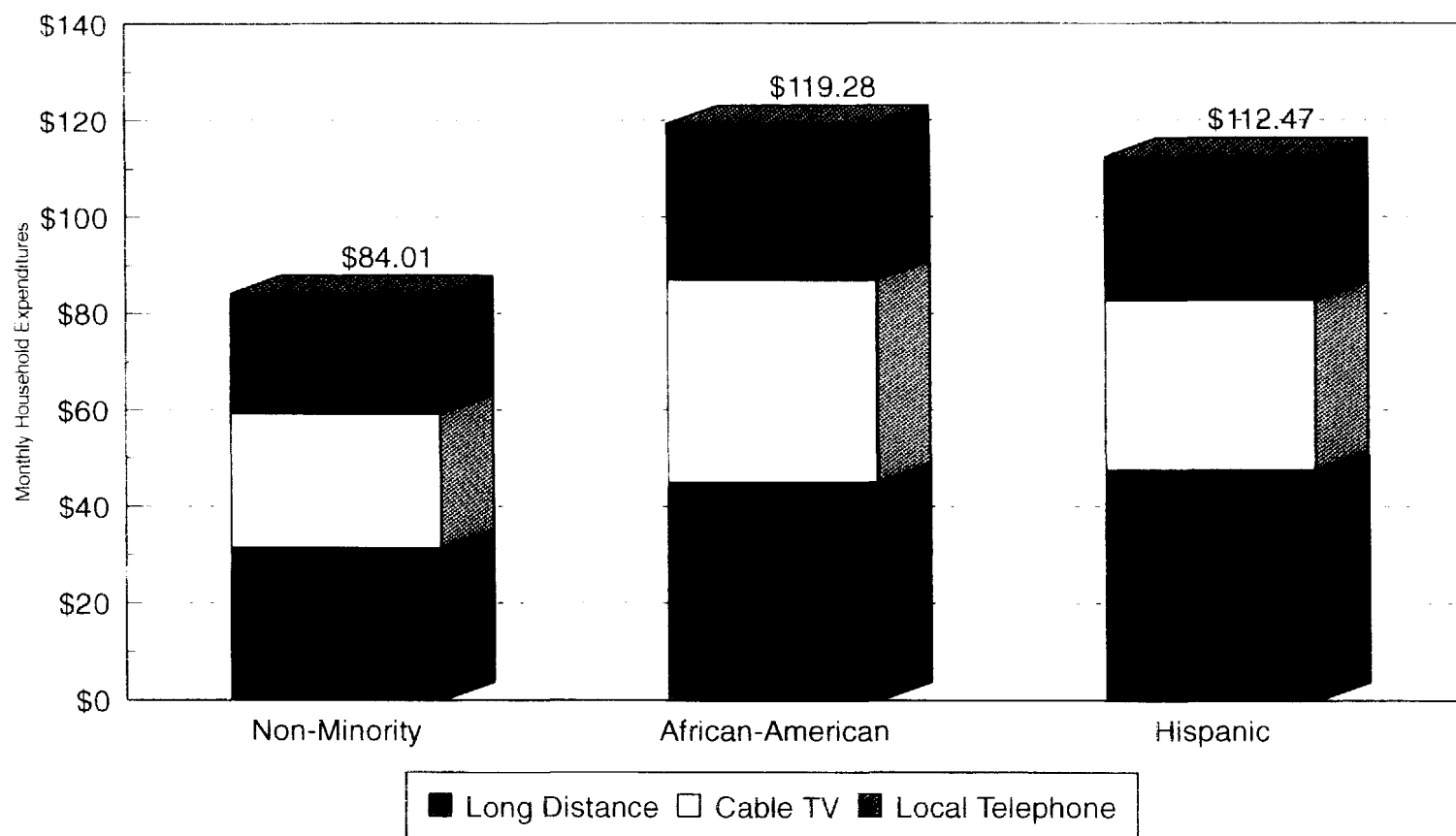


Source: PNR and Associates

Figure1-A

Low Income Minority Households Spend Heavily on Communications Services

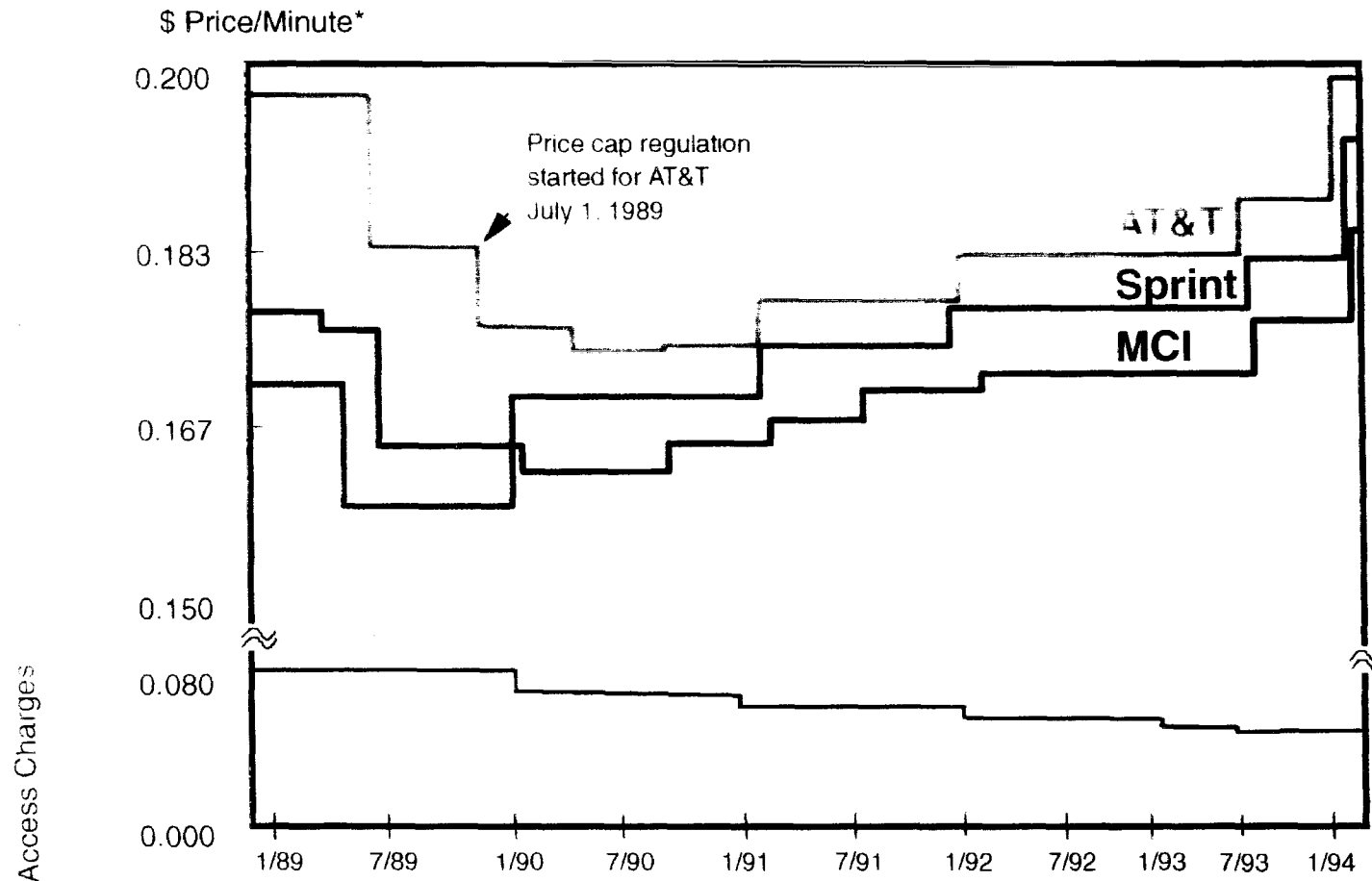
Monthly Spending on Communications Services in Households
with Income Under \$10,000 by Ethnic Group and Type of Service



Source: PNR and Associates

Figure 2

Trends in Long Distance Rates Show MCI and Sprint are Following AT&T's Lead in Raising Prices



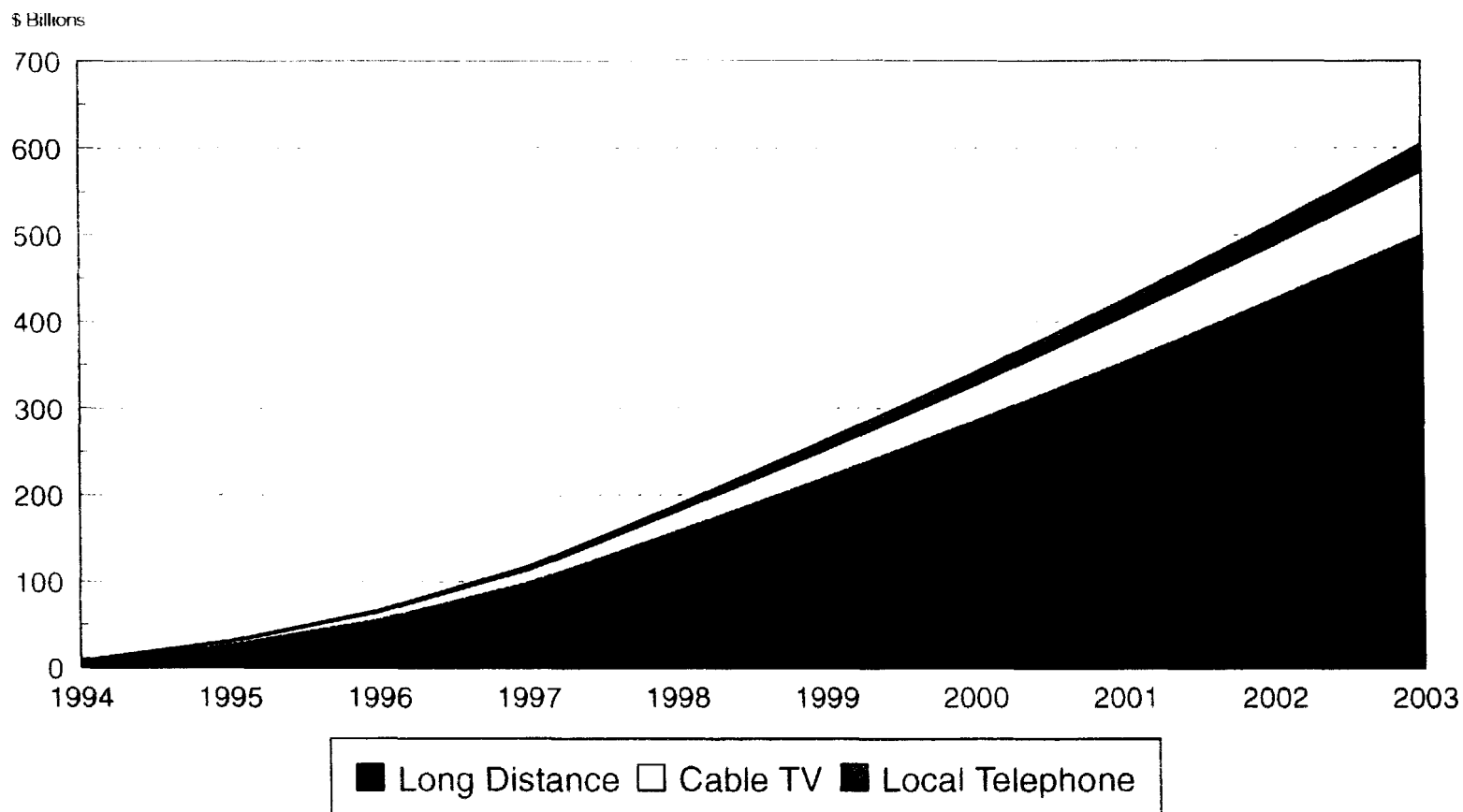
*Long distance rates based on the average price per minute for basic service.

Note: Access charges are the fees that long distance companies pay to local telephone companies to connect to the local telephone network. The payment of access charges is a significant part of the overall cost of providing long distance service. Access charges have been decreasing steadily since 1989 but long distance prices continue to rise.

Figure 3

Increased Competition in Communications Markets Will Save Consumers over \$600 Billion During the Next Decade

Cumulative Consumer Savings on Communications Services

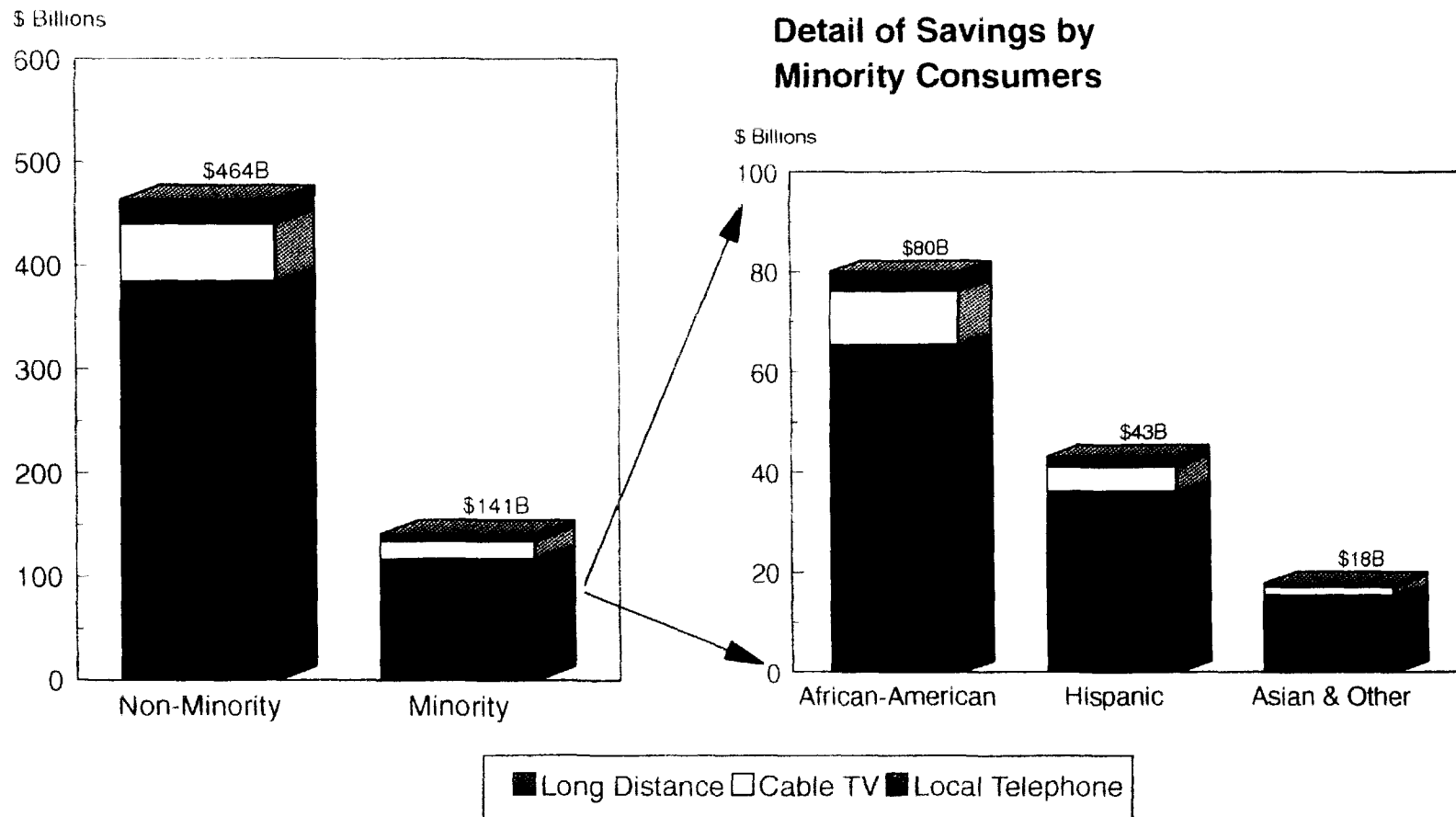


Source: The WEFA Group

Figure 4

Minority Consumers will Save \$141 Billion on Communications Services if Barriers to Competition are Removed

Breakdown of Consumer Savings by Major Ethnic Groups (Cumulative Savings by 2003)



Sources: The WEFA Group and PNR and Associates

Figure 4-A

Minority Households Will Save Almost \$30 per Month on Communications Services if Barriers to Competition are Removed

Monthly Household Savings on Communications Services
by Ethnic Group and Type of Service (Average over 1994-2003 period)

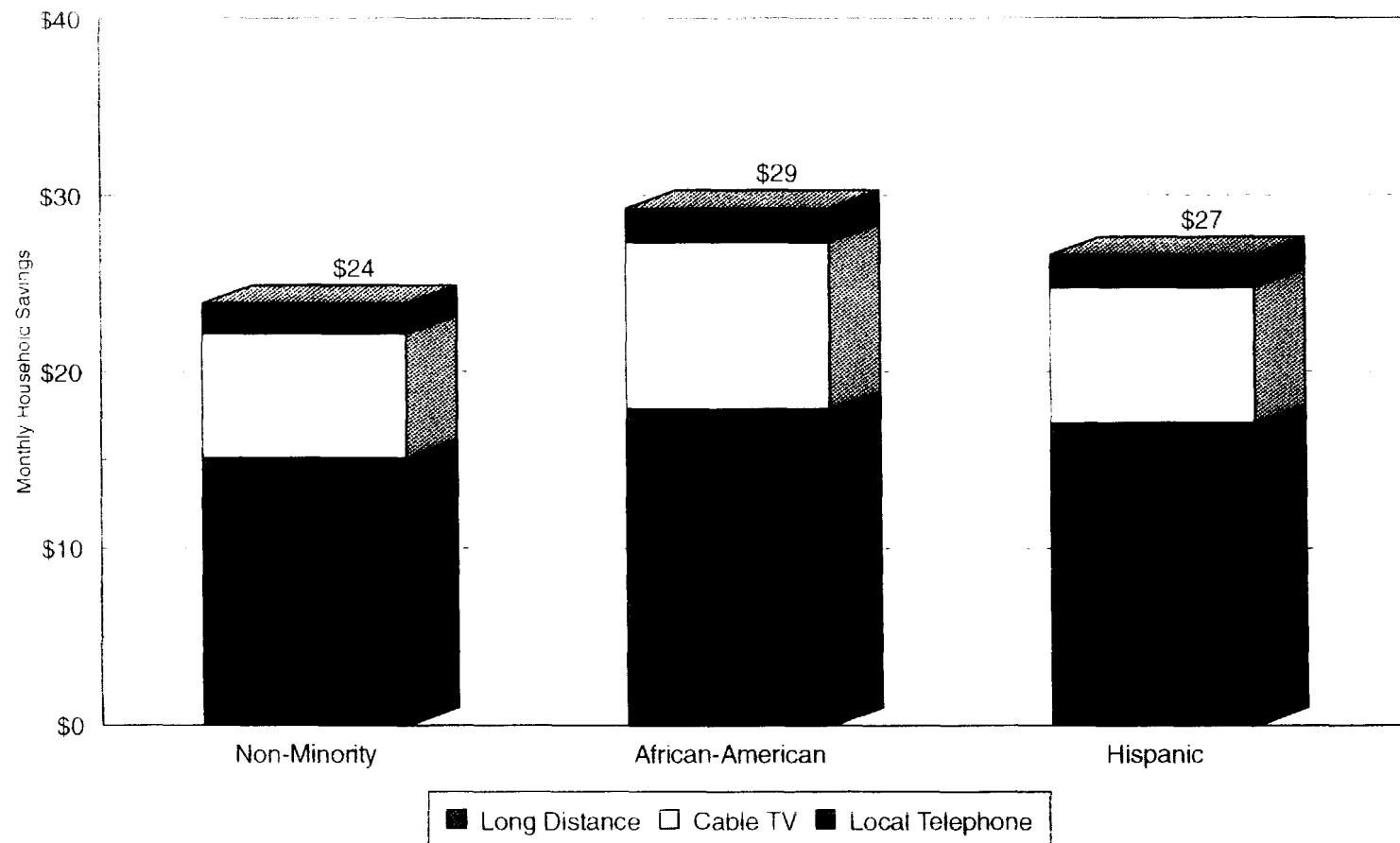
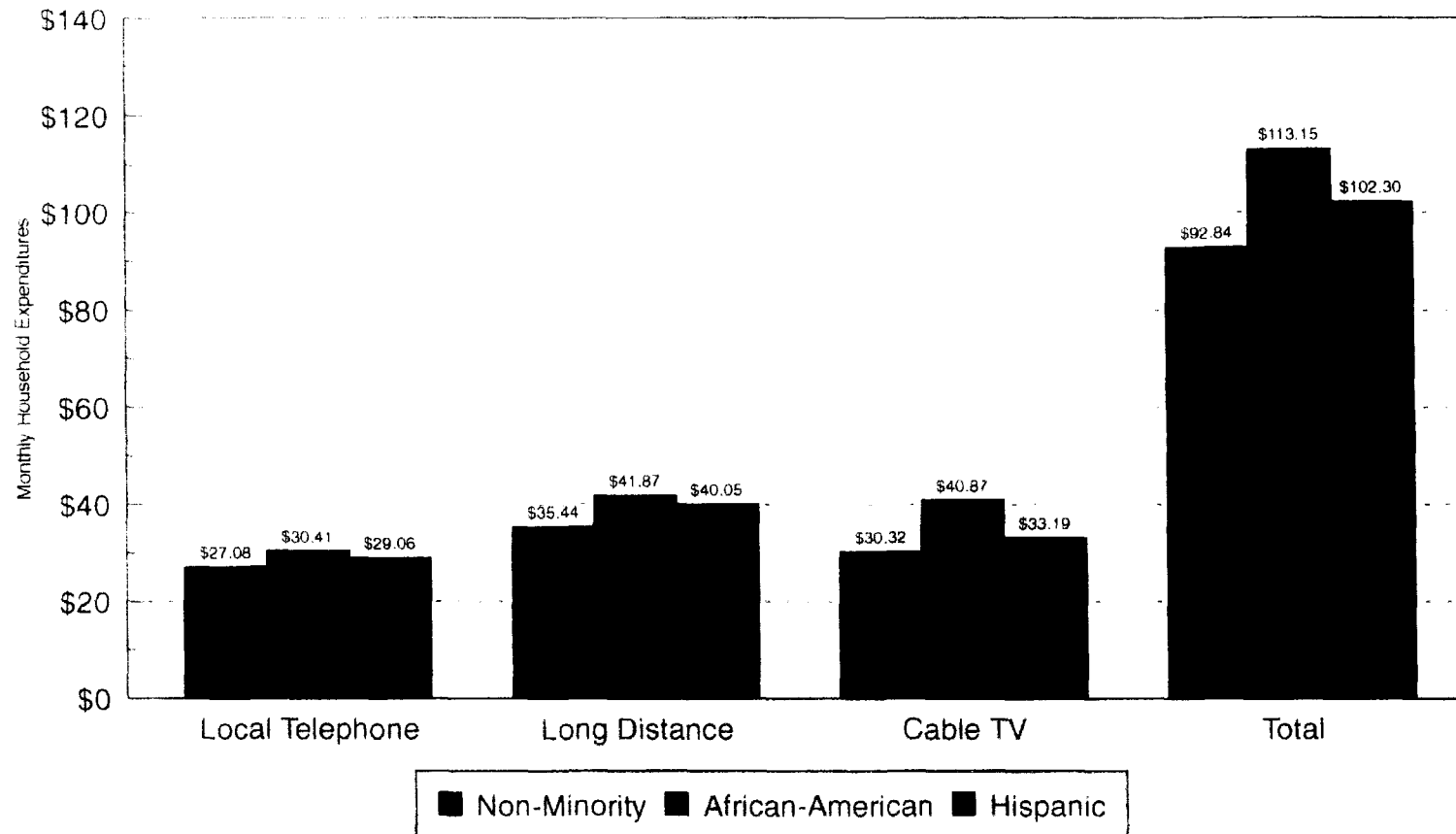


Figure 5

African-American Households Outspend Other Ethnic Groups on all Types of Communications Services

Comparison of Total Monthly Spending on Communications Services by Type of Service and Ethnic Group



Source: PNR and Associates

Figure 6

African-American Households Lead Spending on Long Distance Services in Almost all Income Groups

Comparison of Monthly Spending on Long Distance Telephone Service by Household Income and Ethnic Group

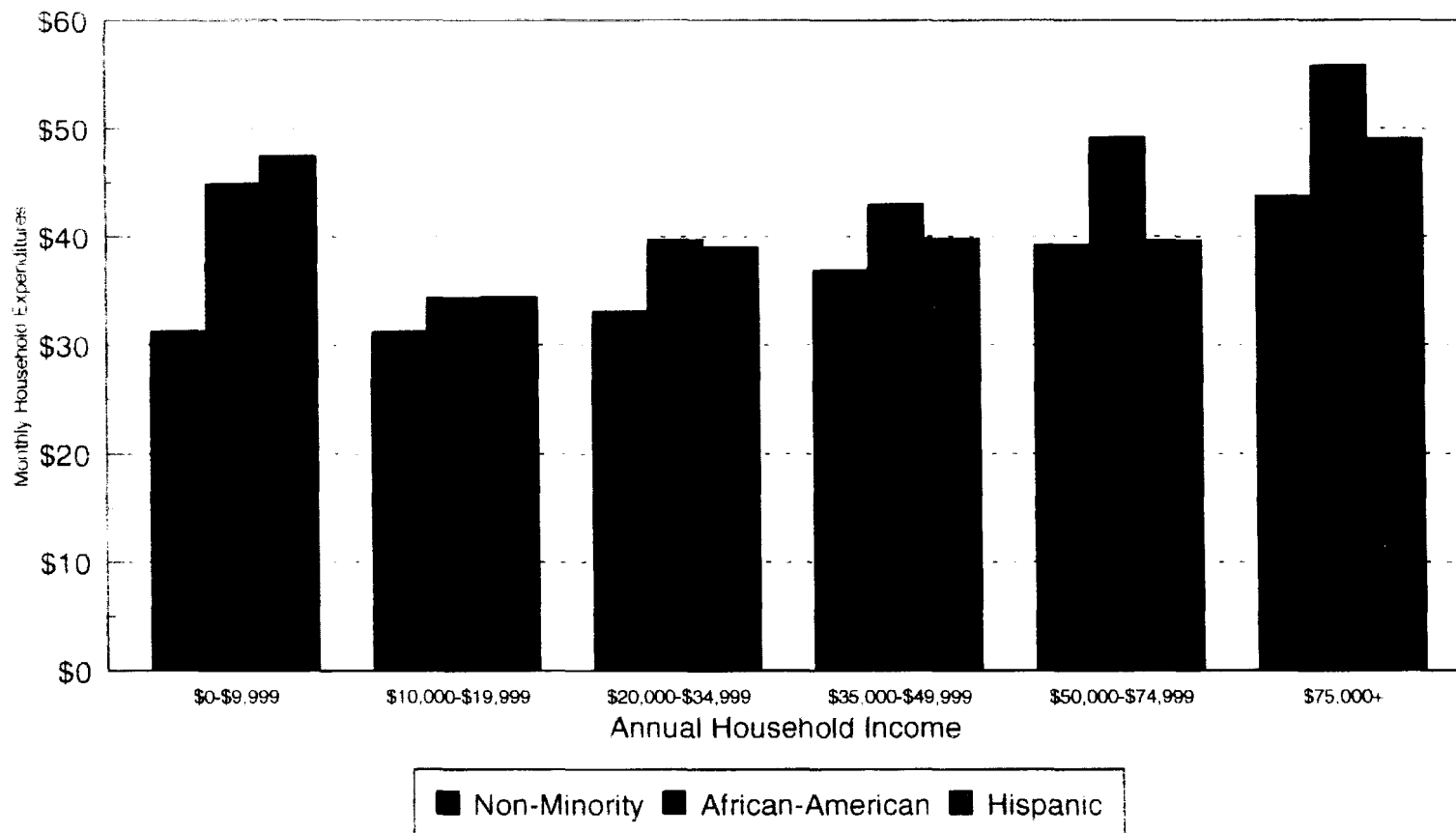
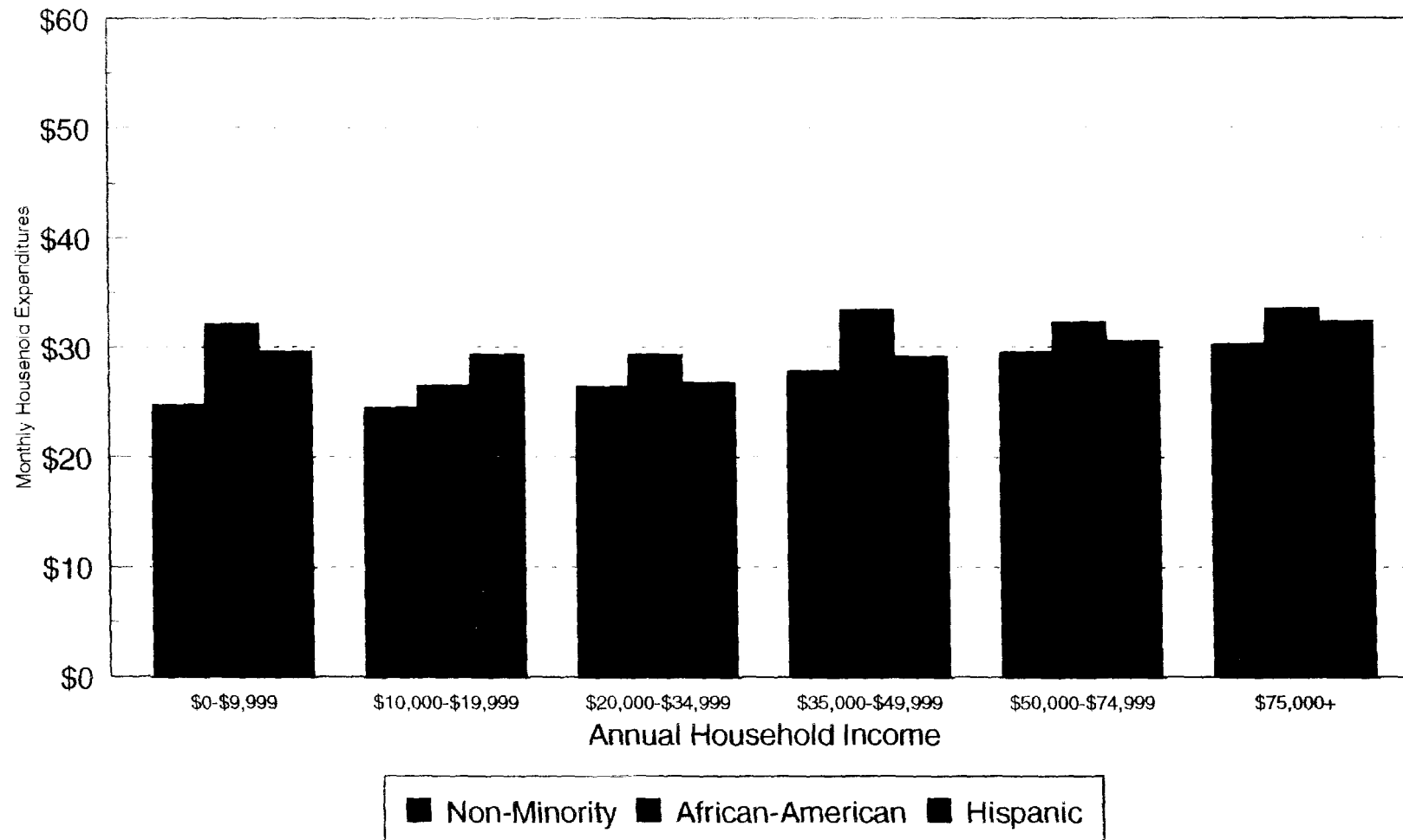


Figure 7

Household Spending on Local Telephone Service is Relatively Consistent Across Ethnic and Income Groups

Comparison of Monthly Spending on Local
Telephone Service by Household Income and Ethnic Group

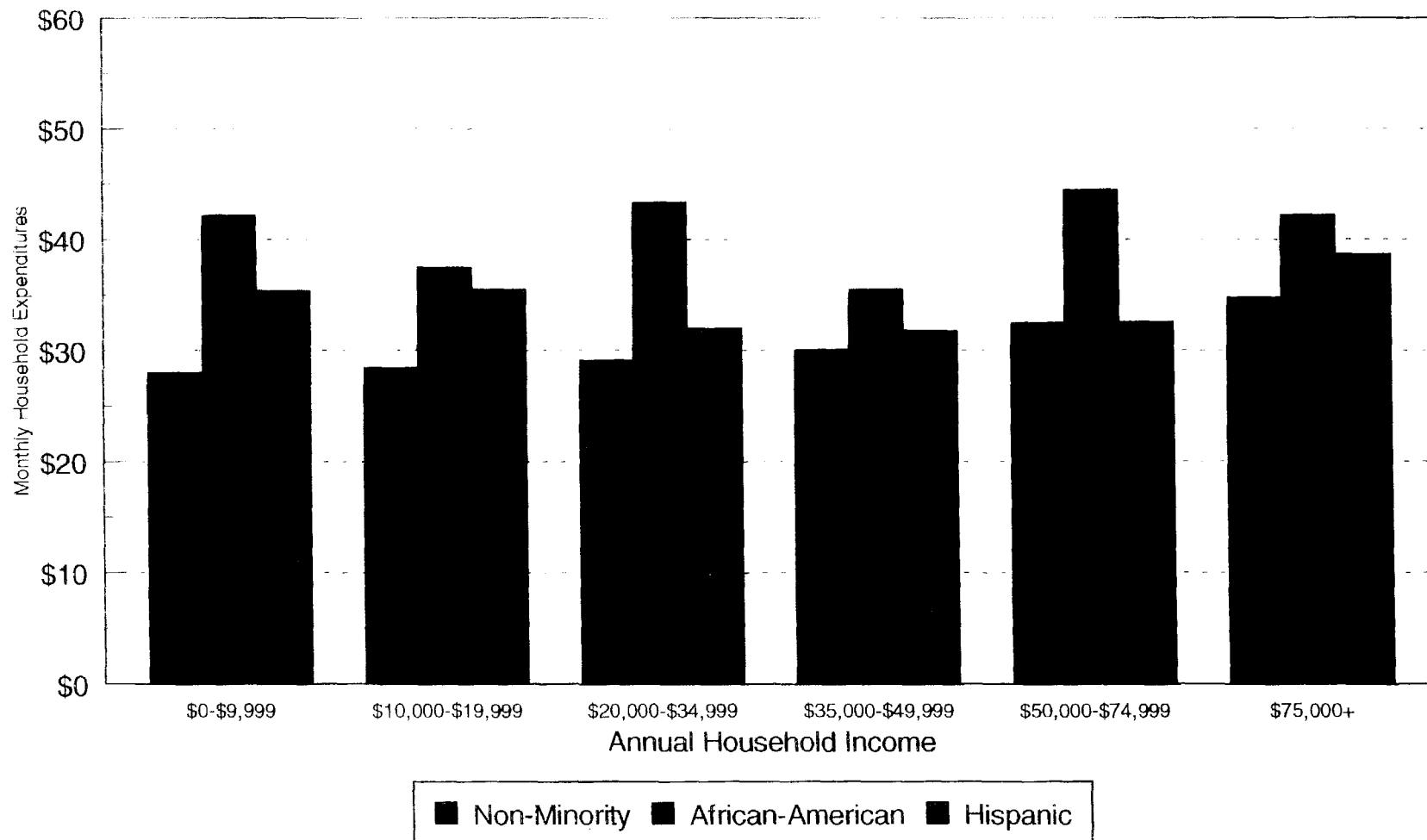


Source: PNR and Associates

Figure 8

African-American Households of all Income Levels Spend More on Cable TV than Other Ethnic Groups

Comparison of Monthly Spending on Cable Television by Household Income and Ethnic Group

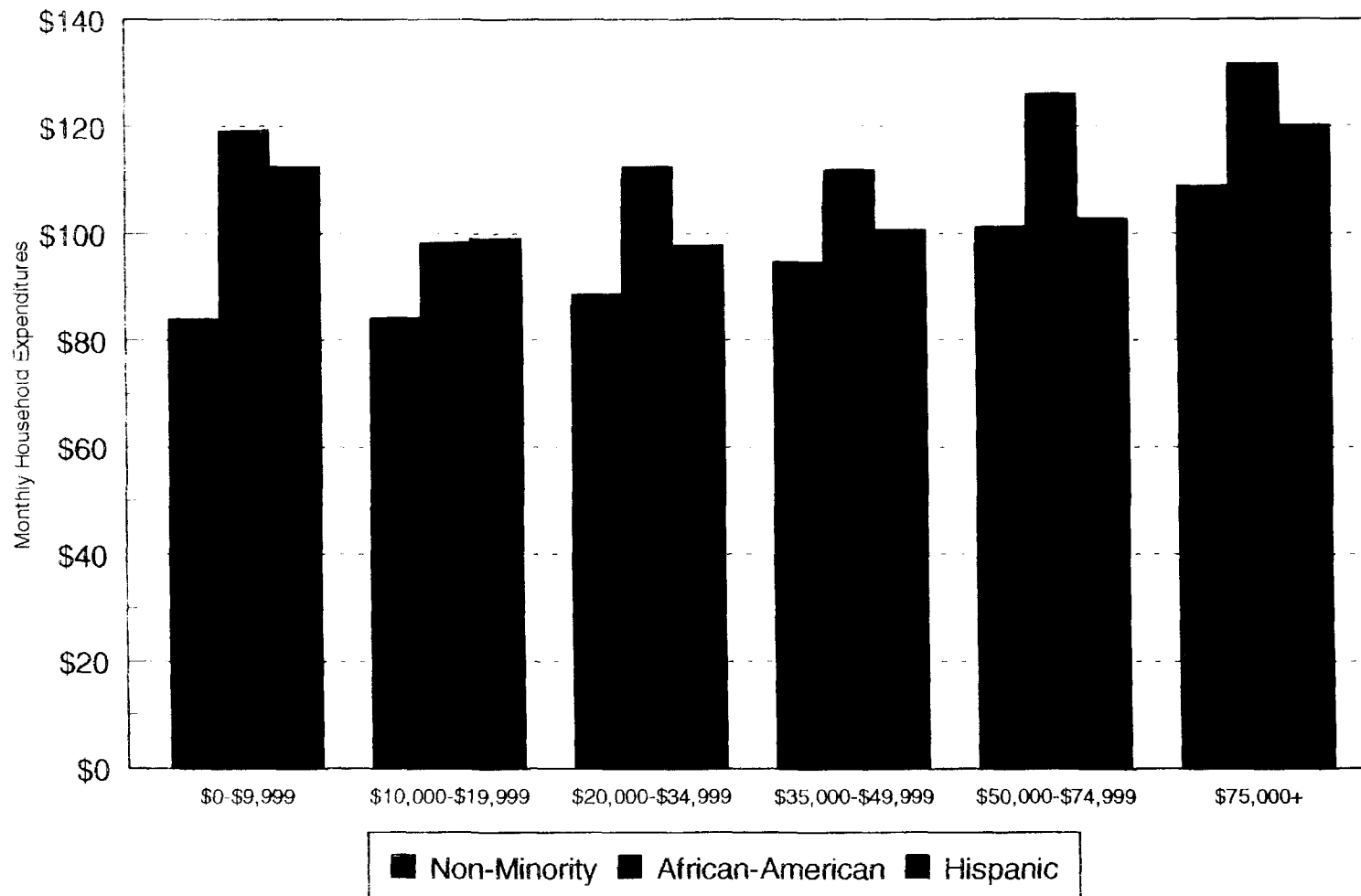


Source: PNR and Associates

Figure 9

At Every Income Level, Minority Households Spend More on Communications Services than Non-Minority Households

Comparison of Monthly Spending on Communications Services by Household Income and Ethnic Group



Source: PNR and Associates